FDIC State Profile

Fall 2004

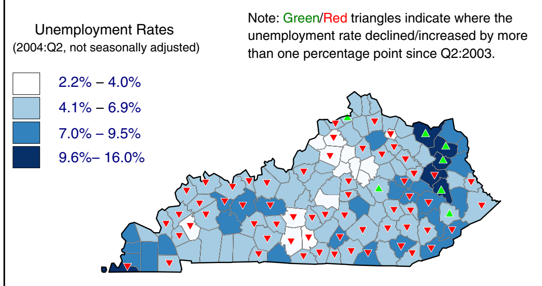
Kentucky

Kentucky showed continued economic improvement.

- Kentucky's second quarter unemployment rate was 5.4 percent, unchanged from the first quarter of 2004, but noticeably lower than the 6.3 percent rate posted a year earlier.
- Across Kentucky counties, the second quarter unemployment rates ranged from 2.2 to 15.7 percent. Almost half of the counties experienced significant decreases in unemployment rates while only seven counties saw significant increases (See Map 1).
- Employment growth reached 0.5 percent in the second quarter, a rate that outpaced the Chicago region but lagged 0.5 percentage points below the nation's employment growth rate.[1]
- The construction industry contributed 4,300 of the 8.900 net new jobs in the state during the past four quarters (See Chart 1).
- State budget woes resulted in reduced employment, especially among local government units. June 2004 marked the end of the fifth quarter of year-to-year job losses in Kentucky's government sector.
- Although manufacturing accounted for much of the state's employment loss in the past few years, the sector's weakness moderated noticeably since late 2003 (See Chart 2). Net hiring by Kentucky manufacturers may develop in response to the strong growth in manufacturers' new orders at the national level, which has been under way since mid-2003.
- Motor vehicle manufacturing accounts for a relatively high seven percent of total manufacturing jobs in the state, and the motor vehicles and parts sector has not been as weak in Kentucky in recent years as elsewhere in the Chicago Region. This relatively better performance may continue as Ford Motor Company upgrades its factory in ***Louisville*** and Toyota continues production of its popular Camry model in ***Georgetown***.

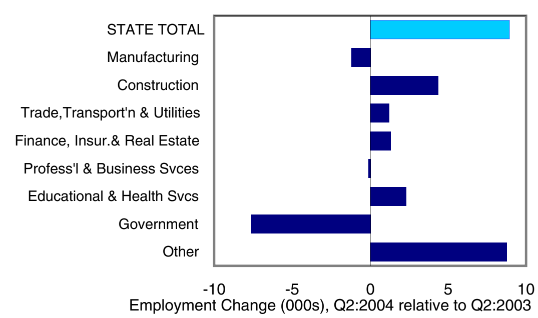
[1]Chicago Region includes Illinois, Indiana, Michigan, Ohio, Wisconsin and Kentucky.

Map 1: County Unemployment Rates Decline Across Kentucky



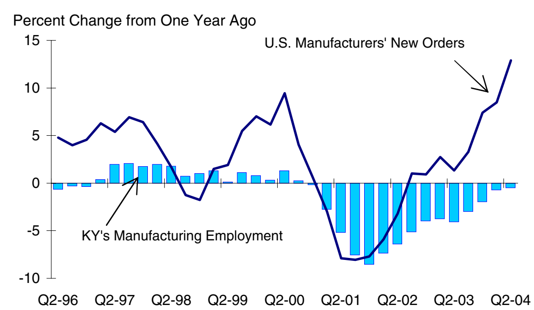
Source: Bureau of Labor Statistics

Chart 1: Employment Growth Varies Among Sectors



Source: Bureau of Labor Statistics

Chart 2: Growth in New Orders Brings Hope of Employment Growth



Source: Bureau of Labor Statistics

Construction sector may remain active.

- Economic development plans in Louisville and elsewhere may help sustain construction employment. Louisville has seen construction of a large hotel, and economic development funds are earmarked for programs to improve the downtown's infrastructure, expand the airport, and attract new businesses. In addition, UPS and a major healthcare group plan to expand facilities in the Louisville area, while Fed Ex will build elsewhere in the state.

- Housing affordability in Kentucky has remained favorable for households and may spur additional construction. Although mortgage rates edged up, real personal income growth in the state accelerated to 3.5 percent in the first quarter of 2004 relative to a year earlier.

- Permits for residential buildings rose 18 percent in Kentucky over the past year, in contrast to a decline in the rest of the Chicago Region. Permits for building with two or more units, which make up 20 percent of all permits, soared in the second quarter while permits for single-family homes grew by 7 percent over the past year.

Kentucky's community banks see improving earnings fundamentals.

- For Kentucky's community institutions,[2] sharply lower provision expenses and higher net interest margins more than offset a decline in noninterest income and higher noninterest expenses and taxes. Overall, the return on assets (ROA) in second quarter was well above 1 percent and one of the highest in recent years (See Table 1).

- Kentucky's community banks increased their net interest margin (NIM) from one year earlier even though market yields on Treasury securities rose over the period. The cost of funding earning assets for Kentucky institutions dropped by 42 basis points relative to second quarter 2003, while the yield on earning assets fell by 37 basis points.

- The decline in provision expenses accompanied improving loan quality. The past-due loan rate of 2.31 percent was 40 basis points lower than a year earlier, and net charge-offs dipped 0.14 basis points to 0.37 percent.

Positive signs emerge in loan quality.

- For Kentucky's community institutions as a group, the percentage of loans past due on June 30 was the lowest since second quarter 2000, as banks and thrifts saw a decline toward pre-recession levels. The second quarter's improvement relative to a year earlier was widespread among loan categories (See Chart 3).

- The reserve coverage of noncurrent loans at Kentucky's community institutions remained relatively high, at 129.6 percent in the second quarter. The loan loss reserve of 1.35 percent for total loans was squarely in the middle of the 1.30 to 1.41 range of the prior eight quarters. Recent improvements in loan quality lessen the likelihood that significantly higher provisions will be needed in coming quarters.

- Loans made by Kentucky banks to small businesses and small firms grew by a moderate 7.8 percent in the year ending June 30, 2004, somewhat faster than nationally.[3]

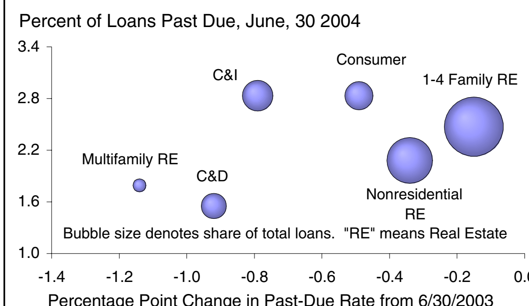
Table 1: Kentucky's Community Banks and Thrifts Report Improved Earnings

Income statement contribution (as a percentage of average assets)

	3 months ended June 30		Percentage Point Change
	2003	2004	
Net Interest Income	3.57	3.63	0.06
Noninterest Income	0.93	0.85	-0.08
Noninterest Expense	-2.88	-2.92	-0.04
Provision Expense	-0.54	-0.20	0.34
Security Gains & Losses	0.06	0.06	0.00
Income Taxes	-0.26	-0.31	-0.05
Net Income (ROA)	0.88	1.11	0.23

Source: FDIC

Chart 3: Past-Due Rates are Lower Across All Lending Categories



Source: FDIC. Kentucky's Community Institutions

[2] Community institutions are insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks.

[3] Small business loans as reported each June in Schedule RC-C Part II, Loans to Small Business

Kentucky at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	240	247	254	263	284
Total Assets (in thousands)	48,087,302	51,354,609	57,790,190	56,946,444	54,135,509
New Institutions (# < 3 years)	5	11	12	16	19
New Institutions (# < 9 years)	39	42	41	41	39

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.20	9.12	9.22	9.49	9.66

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	2.18%	2.32%	2.30%	2.33%	1.77%
Past-Due and Nonaccrual >= 5%	28	33	36	38	22
ALLL/Total Loans (median %)	1.33%	1.28%	1.26%	1.17%	1.18%
ALLL/Noncurrent Loans (median multiple)	1.38	1.43	1.53	1.42	1.68
Net Loan Losses/Loans (aggregate)	0.22%	0.51%	0.52%	0.36%	0.22%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	15	13	22	19	18
Percent Unprofitable	6.25%	5.26%	8.66%	7.22%	6.34%
Return on Assets (median %)	1.10	1.12	1.12	1.03	1.21
25th Percentile	0.72	0.71	0.65	0.64	0.84
Net Interest Margin (median %)	4.02%	3.89%	4.03%	3.97%	4.28%
Yield on Earning Assets (median)	5.74%	6.10%	6.91%	8.27%	8.29%
Cost of Funding Earning Assets (median)	1.72%	2.21%	2.92%	4.32%	4.04%
Provisions to Avg. Assets (median)	0.14%	0.19%	0.17%	0.16%	0.15%
Noninterest Income to Avg. Assets (median)	0.69%	0.71%	0.64%	0.64%	0.60%
Overhead to Avg. Assets (median)	2.93%	2.86%	2.80%	2.87%	2.78%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	83.35%	79.42%	81.55%	83.68%	86.02%
Loans to Assets (median %)	67.54%	65.70%	66.49%	67.34%	68.79%
Brokered Deposits (# of Institutions)	40	39	34	41	43
Bro. Deps./Assets (median for above inst.)	2.82%	1.77%	1.19%	0.82%	1.02%
Noncore Funding to Assets (median)	20.67%	19.71%	19.73%	20.80%	19.20%
Core Funding to Assets (median)	67.87%	68.27%	68.86%	67.76%	68.35%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	162	162	165	168	183
National	42	49	51	52	58
State Member	11	9	11	11	9
S&L	9	9	10	10	11
Savings Bank	16	18	17	22	23
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	171	23,743,719	71.25%	49.38%
Lexington KY	23	5,083,294	9.58%	10.57%
Louisville KY-IN	16	14,170,984	6.67%	29.47%
Cincinnati OH-KY-IN PMSA	14	1,901,272	5.83%	3.95%
Huntington-Ashland WV-KY-OH	8	1,361,856	3.33%	2.83%
Owensboro KY	3	716,243	1.25%	1.49%
Clarksville-Hopkinsville TN-KY	3	915,335	1.25%	1.90%
Evansville-Henderson IN-KY	2	194,599	0.83%	0.40%